

## 43rd Legislative District

2002



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**Committees:**

Health & Long-Term Care, Chair;  
Judiciary; Ways & Means

# State Budget Guide



# PatThibaudeau State Senator

## 43rd Legislative District

*Dear Friends and Neighbors,*

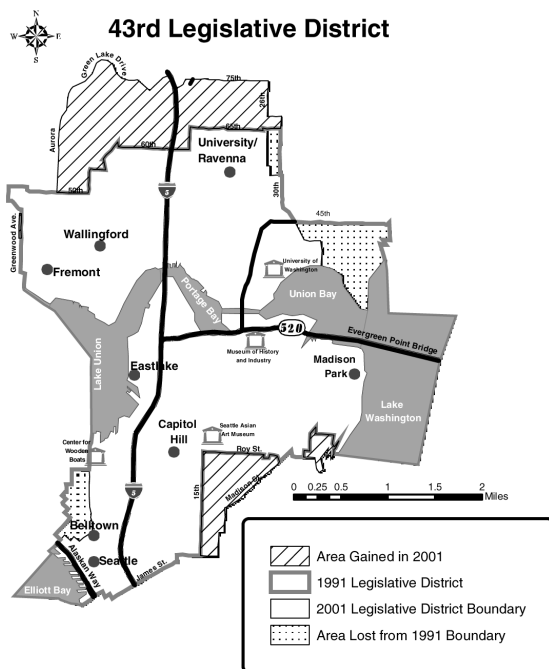
*As we enter the second month of the 2002 session, I wanted to provide you with some information about the particular challenges the Legislature faces this year, as well as this booklet detailing the state's budget process.*

*I also wanted to let you know how much I appreciate having the opportunity to represent the 43rd District. My pride in our district stems from my strong sense that folks in the 43rd believe in their community and are supportive of efforts to help out those amongst us who are less fortunate. Thank you. It has been a great privilege to work with you and for you!*

*Now, to the 2002 session: We have a great deal of work ahead of us.*

*We began this session with the daunting challenge of rewriting a budget that is \$1.25 billion out of balance. That means the prospects for deep and brutal cuts in programs and services are very real.*

*In my capacity as chair of the Senate Health and Long-term Care Committee and member of the Ways & Means Committee, I am well aware that one of the driving forces behind our budget problems is the escalating cost of health care services, particularly prescription drugs and hospital services. Through the Medicaid program alone, the state provides health services to about 850,000 low-income Washington residents, and the cost of providing those services is rising at unsustainable rates. In fact, 39% of the increase in the cost to the state of simply continuing to provide the same services and programs is due to rising health care costs.*



*Our overriding challenge will be to lessen the impact that any cuts could have on the folks who rely on the state for service, whether that be the thousands of children who attend our public schools or the elderly woman who can't afford to be cared for in a nursing home.*

*Even though these challenges are immense, we remain optimistic that we, as your elected representatives, can work together to reach solutions.*

*Again, my thanks for the chance to represent such a great district.*

*Sincerely,*

A handwritten signature in black ink that reads "Pat Thibaudeau". The signature is fluid and cursive, with the first name "Pat" and last name "Thibaudeau" clearly legible.

Pat Thibaudeau  
Senator, 43rd District.

## **Balancing the Budget: a \$1.25-billion shortfall**

As the session approaches the half-way point, the Legislature is struggling with a budget shortfall as large as any faced by the state in nearly a decade. Unlike the federal government, the state is required to balance its budget and live within its means. That means that this session the Legislature will have the options of reducing services, finding new revenue sources, or tapping its rainy day reserve fund to make up the \$1.25 billion gap between revenue and expenditures.

Most of the current \$21.2 state funded budget — more than 55 percent — goes to educating our children, either in our public schools, community colleges, or universities. The rest is mostly dedicated to providing health care and other services to youngsters from poor families and disabled and elderly adults. **So the questions is, how do we reduce services without hurting our most vulnerable citizens or the quality of education? Should we find new revenue so we don't have to cut programs as deeply?**

### **Why is there such a large deficit this year?**

- **A slowing state economy.** Washington's economy was already hurting when the terrorist attacks occurred on Sept. 11th. That event hit our Boeing-reliant economy hard, pushing unemployment in Washington higher than in most other states. As a result of our economic downturn, tax revenues are expected to decline by more than \$800 million over the next 18 months.

- **Layoffs at Boeing.** When air travel fell off in the wake of the terrorist attack, Boeing, the world's largest commercial plane maker, was among the companies hurt the most. In response, Boeing has said it may eliminate as many as 20,000 Puget Sound jobs — layoffs that will have a dramatic ripple effect on the state's economy.
- **More children attending schools, more inmates.** The number of children in our schools and convicts in our prisons is increasing faster than expected. These developments, along with higher firefighting costs, have driven state costs up by about \$350 million.
- **Property-tax initiative.** In November, voters approved a proposal (Initiative 747) that caps property-tax increases at 1 percent. That will reduce state revenues by \$35 million this budget period and by \$227 million during the next two-year budget cycle. The initiative will have a bigger impact on cities and counties, reducing their resources by \$115 million during the next two years and \$571 million in the following two years.

### **How can the Legislature balance the state's books?**

In essence, we have to either raise additional revenue, cut services and spending, or tap more of the “rainy day” reserve fund — or a combination of those options — to add up to about \$1.25 billion.

### **What has the Governor proposed to do in his budget?**

- **Cut Services.** In his budget proposal released at the end of last year, Gov. Gary Locke called for the elimination of 30 programs, laying off more than 400 employees; making state workers pay more for their health care; and reducing funding for local government. All together, the governor's budget would save about \$566 million through substantial reductions in services.
- **Raise Revenues.** The governor's proposal calls for no increase in general taxes. He does seek legislative approval of a multi-state “Big Game” lottery — which would increase revenues by \$25 million — and additional gambling and liquor taxes, as well as other fees to generate \$165 million.
- **Tap Reserves.** The governor has proposed taking about \$220 million from reserves and leaving about \$300 million in case of an emergency down the road.

### **What's next?**

Now, nearly half way into the 60-day session, it's the Legislature's job to make the final decisions on how to balance the operating budget. The Senate is expected to release its budget proposal in mid-February. The House typically offers a counter proposal shortly afterwards. Differences are then ironed out, and eventually a budget will be approved by the entire Legislature.

The enclosed ***Citizens' Guide to the Washington State Budget*** provides an overview of the budget process.

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## Introduction

*A Citizen's Guide to the Washington State Budget* is offered as a resource for citizens, members of the Senate, their staff, and other interested persons to provide a clear and simple overview of the state budget and state revenues. It describes the three basic state budgets and their interrelationships, the sources of revenue that support those budgets and how the money is spent.

*A Citizen's Guide to the Washington State Budget* was prepared by staff of the Senate Ways and Means Committee (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) Committee. Questions regarding the guide or requests for additional copies should be addressed to:

### Senate Ways and Means Committee

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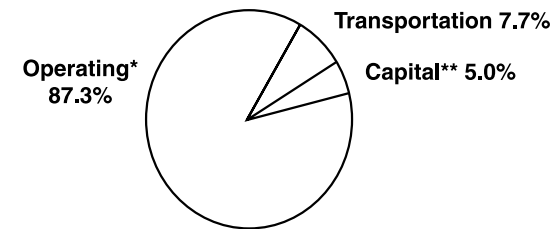
Telephone: 360-786-7715

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Web site: [www.leg.wa.gov/senate/scs/wm/default.html](http://www.leg.wa.gov/senate/scs/wm/default.html)

# How Big Is The State Budget?

In the 2001-03 biennium, the state of Washington will spend a total of \$49.7 billion. That's about \$68 million per day (on average) during the two-year spending period. This \$49.7 billion includes amounts from three different budgets, which are plans of how the state will spend the money. The three state budgets are described in the following:



2001-03 State Budgets  
(Dollars in Billions)

Operating*	\$43.4
Transportation	3.8
Capital**	2.5
<b>Total</b>	<b>\$49.7</b>

\* Includes appropriations in other legislation (approximately \$25.1 million)

\*\* Excludes Capital Re-appropriations (approximately \$1.6 billion)

Sources: Winsum and Buildsum budget development systems.

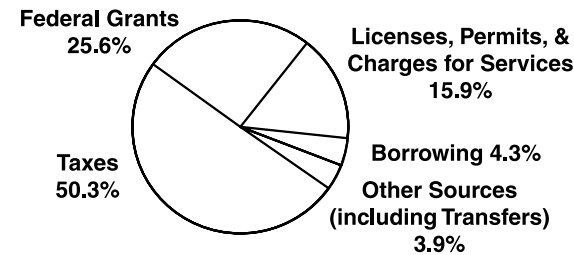
- The budget that pays for the day-to-day operation of state government (including federal funds and dedicated funds) is called the **Operating Budget (\$43.4 billion)**.
- The budget that pays for transportation activities such as designing and maintaining roads and mass transit is called the **Transportation Budget (\$3.8 billion)**. This budget includes amounts for both transportation operating activities (\$1.75 billion) and transportation capital activities (\$2.06 billion).
- The budget to acquire and maintain state buildings, public schools, public lands, parks and other assets is called the **Capital Budget (\$2.5 billion)**.

You may also have heard about the state “general fund” budget. This refers to the spending plan for the largest fund of the state; it represents more than half of the \$43.4 billion operating budget. A discussion of the state general fund budget begins on page 6.

# Where Does This Money Come From?

To pay for its activities in the 2001-03 biennium, the state will tax citizens and businesses \$25.1 billion, receive federal and other grants of \$12.8 billion, collect fees, and assess charges for licenses and permits of \$7.9 billion, and borrow \$2.1 billion; other sources (including transfers) account for \$1.9 billion. The relative size of each of these sources is shown in the following chart.

Most of the money the state uses to pay for services comes from state taxes. Washington’s major tax sources include the sales tax, property tax and a rather unique tax called the Business and Occupation (B&O) tax, which is a tax on gross receipts rather than on profit or income. Washington is one of seven states that does not levy a personal income tax.



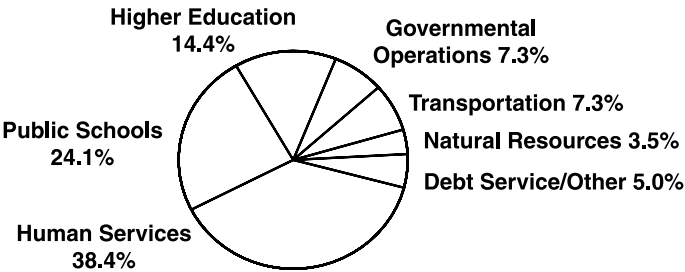
**2001-03 Sources of Revenue**  
(Dollars in Billions)

Taxes .....	\$25.1
Federal & Other Grants .....	12.8
Licenses, Permits, & Charges for Services ..	7.9
Borrowing .....	2.1
Other Sources .....	1.9
<hr/>	
<b>Total. ....</b>	<b>\$49.9</b>

**Note:** Numbers do not add due to rounding.  
Source: OFM Revsum database for 2001-03.

# How Are These Funds Spent?

As the following chart shows, during the next two years, the state will spend a total of \$49.7 billion, which can be divided into seven major areas.



**2001-03 All Budgeted Expenditures\***  
(Dollars in Billions)

Human Services.....	\$19.1
Public Schools .....	12.0
Higher Education .....	7.2
Governmental Operations .....	3.6
Transportation .....	3.6
Natural Resources .....	1.7
Debt Service/Other.....	2.5
<b>Total* .....</b>	<b>\$49.7</b>

\* Excludes Capital Re-appropriations (approximately \$1.6 billion).

Sources: Winsum and Buildsum budget development systems.

**Human Services**, such as mental health and other institutions, public assistance, health care, and prisons, accounts for 38.4% of total expenditures. Most human services programs are partnerships between the state and the federal government with the federal government providing about half of the money and the state providing the rest. The state provides human services to one out of every five citizens, including services to over half a million children residing in Washington.

**Public Schools**, which includes funding for kindergarten through 12th grade, comprises the next largest category of total expenditures, although it represents the largest component of the state general fund budget (see page 8).



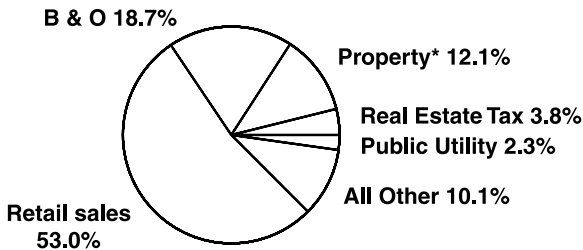
**Higher Education**, representing 14.4% of total budget spending, includes support for the state's four-year schools and community and technical colleges.

**Transportation** services and construction represent 7.3% of total budget spending including highways, state ferries, and the State Patrol, to name a few. The operating activities in Transportation account for over \$1.4 billion of total budget spending (just under 3%), and Transportation capital activities account for approximately \$2.1 billion of all spending (just over 4%).

Other total spending categories include Natural Resources activities for environmental protection, management and recreation, the administrative, judicial and legislative agencies in Governmental Operations, and other expenditures such as the payment of debt service.

# What Is The State General Fund?

The state general fund is the largest single fund within the total state budget. It is the principal state fund supporting the operation of state government. All major state tax revenues are deposited into this fund.



**2001-03 Sources of  
State General Fund Revenue  
(Dollars in Billions)**

Retail Sales .....	\$11.2
Business & Occupation .....	4.0
Property* .....	2.6
Real Estate.....	0.8
Public Utility .....	0.5
All Other.....	2.1
<b>Total.....</b>	<b>\$21.2</b>

\* Excludes the amount transferred to the Student Achievement Account per Initiative 728.

Source: Economic and Revenue Forecast, November 2001

For the 2001-03 budget period, the state general fund will receive \$21.2 billion in revenues. More than half of that amount is from the state retail sales tax. The second largest tax is the B&O, which accounts for almost one fifth of the total, and the third largest tax is the state property tax, which accounts for about 12% of the total.

The state sales tax, the B&O tax, and the state property tax account for more than 80% of all state general fund revenues. In addition, the general fund relies on a public utility tax, insurance premium taxes, real estate excise taxes and a number of other smaller taxes.

Contrary to popular belief, the state lottery does not “pay” for all of K-12 education. Currently, the lottery brings in about \$226 million per biennium; Initiative 728 requires the transfer of these funds to the Student Achievement Account and the Education Construction Account. The total state budget for public schools is about \$12 billion. That means the state lottery only supports about 2% of the K-12 education budget.

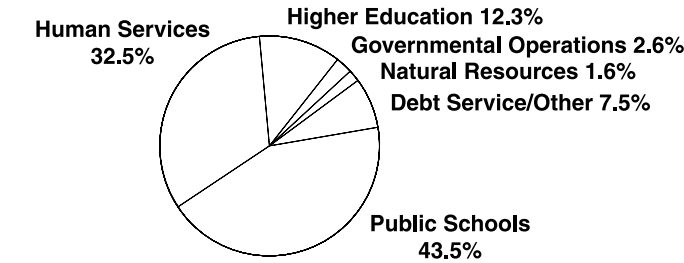
The major difference between the state general fund revenues (\$21.2 billion) and the total of all budgeted funds revenues (\$49.9 billion) is the dedication of revenue sources to specific uses. Most of the difference can be attributed to four areas:

- Federal funds for specific federal programs (\$10.6 billion)
- Higher Education specific funds (\$4.1 billion)
- Bonds for capital purposes (\$2.1 billion)
- Gas taxes for transportation purposes (nearly \$1.5 billion)

These four sources account for two-thirds of the difference between revenues available for all state government budgets and the state general fund budget.

# How Is State General Fund Money Spent?

Because of the nature of its tax sources, the state general fund receives the most attention during the budget building process. As the following chart shows, during the next two years, the state will spend about \$22.8 billion (or about \$30 million per day on average) from the state general fund, which has been divided into six major areas.



**2001-03 General Fund-State Expenditures**  
(Dollars in Billions)

Public Schools . . . . .	\$9.9
Human Services . . . . .	7.4
Higher Education . . . . .	2.8
Governmental Operations . . . . .	0.6
Natural Resources . . . . .	0.4
Debt Service/Other. . . . .	1.7
<hr/>	
<b>Total . . . . .</b>	<b>\$22.8</b>

The largest single state general fund program is Public Schools which includes state support for K-12 education. Public Schools account for 24.1% of all budgeted expenditures but that share rises to 43.5% examining only the state general fund. By the end of the current biennium, the state will provide public education funding for 946,000 children.

**Human Services** state general fund spending consists primarily of the operating budget for the Department of Social and Health Services (DSHS), the states umbrella organization that provides medical, social, and income assistance to citizens in need. It also includes spending for the Department of Corrections and the Department of Health, among others.

**Higher education** spending includes funding for six public universities, 34 community colleges and technical schools, and financial aid to over 282,000 students a year attending both state supported and private colleges. Expenditures for Higher Education represent 14.4% of all budgeted funds and 12.3% of the state general fund. In addition to money from the general fund, Higher Education receives more than \$4.1 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other general fund spending categories include Natural Resources, Governmental Operations, and other expenditures such as the payment of debt service.

## Why Does The Budget Go Up Year After Year?

The budget goes up each year primarily because there are more citizens to serve, those services cost more, and because citizens may request new or different services. Public education may be the easiest example of these trends.

- Article IX, Sec. 1 of the Washington State Constitution declares “It is the paramount duty of the state to make ample provision for the education of all children residing within its borders . . .” The cost of meeting this constitutional requirement takes nearly half of the state general fund budget. In 1990 there were about 800,000 children in Washington State K-12 public schools. By the end of this biennium, enrollment will reach 946,000. The education of these additional children costs hundreds of millions of dollars. Over the same period, the population of the state as a whole is expected to increase over 1.2 million people, so there will be more taxpayers to shoulder these costs.
- Teaching supplies, materials, equipment and energy all will cost more in 2003 than they did in 1990, so the overall cost of educating each student will be more. Similarly, the personal income of the taxpayers on average will be greater.
- Finally, in 1993 the Legislature passed new requirements for public education. Referred to as “education reform”, these requirements have and will continue to change the cost of education for each child. This too will cause the budget to go up.

## How is the Budget Created?

Through the budget process, the Legislature and the Governor decide how much money to raise and spend. State agencies, the Governor, the Legislature, citizens and interest groups are all involved in this process. Washington State operates on a two-year (biennial) basis, beginning on July 1st of each odd-numbered year. For example, the current budget is for the period July 1, 2001 through June 30, 2003.

**Agency Requests** - In late summer and early fall of each even-numbered year, state agencies submit budget requests to the Office of Financial Management (OFM). The Governor reviews the requests and makes the final decisions for his or her budget proposal.

**The Governor's Budget** - By law, the Governor, as the state's chief executive officer, must propose a biennial budget in December of even-numbered years, the month before the Legislature convenes in regular session. The Governor's budget is his or her proposed spending and taxation plan for the biennium.

**The Legislative Budget Process** - After receiving the Governor's budget proposal, the Legislature reviews it and formulates its own budgets during the legislative session which begins in January. The chairs of the Senate Ways and Means and House Appropriations Committees work with their respective members and staffs to analyze the Governor's budget and develop recommendations and alternative proposals. The transportation portions of the budget are developed by separate committees in the House and Senate. Following tradition, the initiation of the budget alternates between chambers each biennium.

After each chamber has passed its version of the budget, the differences between the two must be reconciled in the budget conference process. Six fiscal leaders from both chambers and both political parties meet as a committee to prepare one legislative budget that is submitted to the full Legislature for final passage and then ultimately delivered to the Governor for his or her signature.

The Governor may veto all or part of the budget, thereby eliminating funding for certain activities; however, the Governor cannot add money for an activity for which the Legislature provided no funding. Only after the Legislature passes a budget and the Governor signs it has the state created a real budget.

**Supplemental Budgets** - In even numbered years, the Legislature will consider changes to the biennial budget in what is called a Supplemental Budget. Generally, such changes represent mid-course corrections to the two-year spending plan to account for changes in school enrollments, prison populations, public assistance caseloads, or significant changes in the economy of the state.

## Please Stay in Touch!

Your comments and concerns are always appreciated. Please take a moment to tell me what's on your mind.

Dear Pat,

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Name

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Address

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Phone

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E-mail (optional)



Return Address

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